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Via electronic delivery to: regs.comments@federalreserve.gov

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Docket No. R-1818 and RIN 7100-AF
Federal Reserve's proposed rule on debit interchange price caps (Regulation II)

Dear Secretary Misback,

Ent Credit Union (Ent) appreciates the opportunity to submit comments to the Board of Governors of the Federal Reserve (the Board) concerning its proposed changes to debit interchange price caps and routing (Regulation II). We are greatly concerned that any reduction in the debit interchange price caps will significantly impact affordability of certain core financial services and urge the Board to refrain from taking further steps to implement its current proposal.

Ent is an almost $10 billion asset size federally insured state-chartered credit union, headquartered in Colorado Springs, Colorado. Ent maintains fifty-six (56) full-service service centers in counties along the front range and southern Colorado, serving approximately 500,000 members. Credit unions are not-for-profit and our mission is to improve the financial lives of our member owners through low fees and better loan rates while focusing on personalized service for our members.

Regulation II has reduced revenue for financial institutions to the detriment of consumers.
When Regulation II was implemented, merchants claimed they would pass savings on to consumers. However, research revealed that only 1% of merchants have actually done so, while 22% have increased prices.[1] This evidence seems to suggest it is unlikely merchants will pass any savings on to consumers. Meanwhile, as the costs to issuers continues to increase, the Durbin Amendment is estimated to have cost consumers between $22 billion and $25 billion.[2] Retailers are the sole beneficiary of the Durbin Amendment, at the expense of consumers and card issuers. Merchants are advocating for changes in

[1] Cornerstone Advisors, "The True Impact of Interchange Regulation: How Government Price Controls Increase Consumer Costs and Reduce Security" (2023) available at https://www.cuna.org/content/dam/cuna/advocacy/priorites/documents/True-Impact-of-Interchange-Regulation-CornerstoneAdvisors-June-2023.pdf.

[2] Evans, D.S. Chang, H.H., & Joyce, S. (2013). The impact of the US Debit card interchange fee caps on consumer welfare: An event study analysis. University of Chicago Coase-Sandor Institute for Law & Economics Research Paper (658).

Regulation II, but their assertions in their data should be thoroughly reviewed and validated by the Board. We urge the Board to disregard Merchants' requests to reduce their costs of accepting electronic payments.

Ultimately, reduced revenue for both exempt and covered credit unions could lead to more consolidation of financial institutions due to decrease revenue and pressure to improve operational efficiencies. In fact, evidence supports this concerning outcome. At the end of 2022 there were 14,204 banks and credit unions under $10 billion. By the end of 2022, this number had dropped to 9,043.[3] Collectively, credit unions have seen a decrease in number from approximately 7,300 credit unions in 2011, to just over 4,800 at the end of 2022.[4]

Following the Durbin Amendment there was a drastic reduction in free checking and debit rewards while monthly account fees and minimum balance requirements increased. According to the Government Accounting Office, "covered banks were about 35 percent less likely to offer noninterest checking accounts without monthly fees."[5]

A reduced interchange cap may result in financial institutions revisiting which consumer and business segments they serve, and some consumers may lose access to critical financial services. Implementation of the proposed changes to Regulation II will decrease non-interest revenue resulting in higher costs and less service for our members. Checking account fees will likely increase and free checking accounts may be eliminated entirely or require minimum account balance increase. If balance minimums are not met maintenance fees could be imposed. Additionally, rewards programs for debit cards could very likely be reduced or eliminated entirely.

It is documented that financial institutions are closing branches in rural areas as they are becoming less economically viable due in part to regulatory pressures. Lower income individuals reside in rural communities and will likely face limited choices in available financial services. Limited financial services will likely increase the number of "unbanked" consumers.

Issuers will need to find revenue replacement somewhere, likely leading to increased account fees and possibly tightened underwriting standards and reduced credit availability. Again, the lower income consumer will feel the effects most significantly. Higher minimum balance requirements and increased maintenance fees will also increase the number of "unbanked".

Merchants also benefited from the routing mandates imposed by Regulation II by reducing their costs to route debit transactions. The routing mandates required creation of dual pathways for debit payment authorization for issuers to use. Each pathway, whether dual-message or single-message, varies widely in their cost, capabilities, and security features. Revenue varies widely for issuers depending on which network they contracted with to process their payment authorizations. Merchants are unrestricted in choosing their network and typically select lower cost networks, without regard to security features or fraud. Merchants lackadaisical attitude regarding their security practices directly affect the incidence of fraud occurrence in the payment systems. Ultimately, consumers bear the brunt of the consequences in

[3]Cornerstone Advisors, "The True Impact of Interchange Regulation: How Government Price Controls Increase Consumer Costs and Reduce Security" (2023).

[4] *Id.*

[5] *Id.*

increased fraud to their financial assets. Merchants should be held accountable for choosing networks with inadequate security measures.

Reduction in financial institutions revenue will have negative consequences across the board. Not only will products and services be negatively impacted, but so will financial institutions' ability to invest in security technology and expertise. Fraud losses, mitigation and prevention significantly increase operational costs. Investing in robust fraud prevention systems and technology is critical for financial institutions to mitigate fraud losses and stay ahead of fraudsters and their continual evolution. Research indicates the incidence of fraud where a card is not present is increasing faster than any other fraud category; highlighting the need for continual significant investment to mitigate fraud. It is imperative for financial institutions of all sizes to be able to continually invest in fraud protection and security measure to keep consumers' financial assets and data protected from fraudsters.

We appreciate the opportunity to highlight our concerns regarding the Board's proposed changes. We urge the Board to refrain from implementing this proposal and protect consumers not retailers.

Thank you,

Ent Credit Union